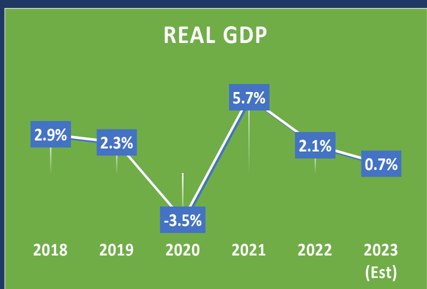
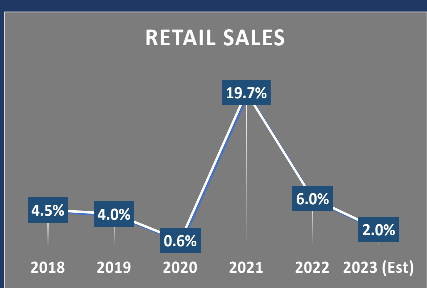
Quarterly Economic Report

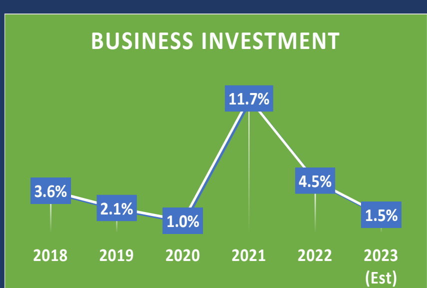
Q1 2023

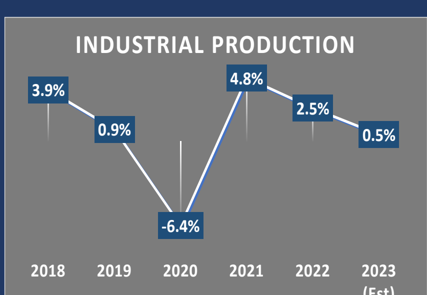
Executive Summary – Q1 '23

Selected Indices









Big Items

Real GDP: The latest assessment of the Q1 GDP performance from the Atlanta Fed has been erratic. Granted, the GDPNow summary that comes from this branch of the Fed can change nearly every day. A week or so ago the estimate was for 3.2% growth and then it stood at 2.2% in the week of the 10th. This has been a surprise given the "headwinds" in the economy. But the labor market remains strong and there are still strong sectors driving the economy (automotive and aerospace for example) which is keeping macro-economic growth stronger than expected.

Paper Inventories-to-Sales: The inventory-to-sales-ratio is an important barometer of future orders for new paper (consumer paper). The ratio has surged in the past quarter and currently sits at 1.0, that is up 4.2% M/M through February (latest available). But it was down 2.9% from a year ago and yet remains much higher than the period from 2014 to 2019 pre-pandemic. This could affect new orders and production of new materials, until inventories come back down to "average" levels. Inventories can fluctuate significantly in the industry, and this adjustment can happen quickly (1-2 months).

Construction: Housing construction has been deeply affected by the shifts in the mortgage rate as well as elevated prices for homes. As always, there are significant differences among regions. The single-family permits were up by 13.8% over January's levels but these are still down by 17.9% from what they were a year ago. Starts for single family units were up 9.8% over January but down by 18.4% over what they were last year. In contrast, multi-family permits are at levels not seen since the 1980s and are stable. There are some signs that prices are coming down for existing homes, but that rate of change is slow and interest rates are starting to keep many potential buyers out of the market.

Retail: When adjusted for inflation, retail sales showed another contraction – down 0.8% from January and are now down 0.6% from February of last year. Unadjusted advanced retail sales showed growth of 5.4% Y/Y, but were down sequentially by 0.4% M/M. The retail sector overall has been surprisingly resilient given the recent issues, but some of these gains can be attributed to the impact of inflation. Retailer profits have not jumped as much as revenue has.

Manufacturing: Global PMI numbers are improving slightly with fewer nations falling into the contraction zone. There were 22 nations in the negative category and now there are 18. Unfortunately, the US is among those that still languish in the 40s (albeit high 40s) which signals that the sector is contracting. The fastest growing of the readings has been in India but Mexico is not far behind in the low 50s. The slowing of manufacturing activity is notable and could have a broader impact on paper demand for a variety of products if it does not snap back in the second half of the year. Again, inventory levels are critical and approximately 65% of the nation's product moving sector is currently sitting with inventory overstocks.

Risks

Recession Risk: There was a great deal of panic in the investment community when the bank crisis started to unfold. Most of that has calmed down but there is still a lot of speculation regarding what the Fed might be tempted to do with interest rates. The initial opinion was that the rates would stop rising and even come down due to the impact on the bond market. It has become clear the central banks are not ready to back away from fighting inflation with higher rates and that continues to increase the probability of at least a mild recession.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

Contents:

The Great Fed Watch - It has become something of a national sport or perhaps an obsession. Fed watching captures the headlines week after week. Will they, or won't they? Every statement is parsed for any nuance or clue as to their intentions and every economic development or crisis becomes fodder for another run at determining the policy direction of the Fed's Open Market Committee. Obviously the determination of the Federal Funds Rate determines much of the pace of economic growth and what makes the examination of motive challenging is the fact that central banks (like the Federal Reserve) have a dual mandate that is impossible to satisfy. They are charged with both promoting economic expansion and job growth and controlling the emergence of inflation. One mandate is accomplished through lowering interest rates and the other is accomplished through increasing them. If the institution had one duty it would be easier to determine their policy preference.

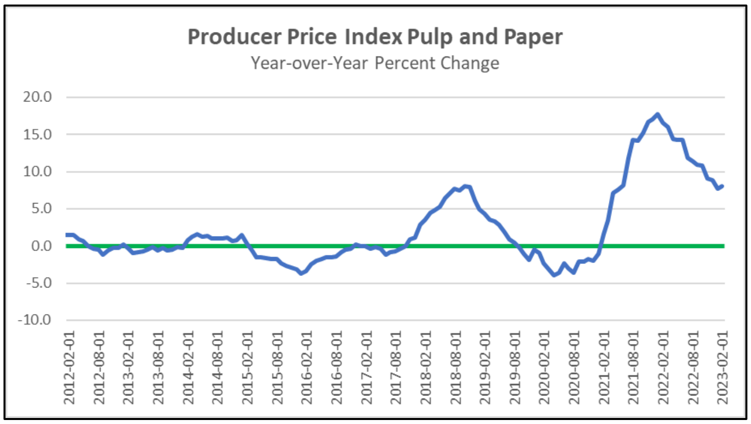
In the aftermath of the 2008 banking crisis, the focus was on stimulating the economy. The Fed's Open Market Committee voted eleven to one to drop rates to near zero, and they stayed there for several years. Then came the somewhat bizarre recession of 2020 and the further need to stimulate. Rates stayed near zero and the fiscal side of government jumped in with nearly a trillion dollars of stimulus aid. The combination of a trillion dollars of aid, a global supply chain breakdown, and a sharp reduction in workforce availability pushed inflation to levels not seen in over four decades. Suddenly the mandate for the Fed changed and now inflation became a concern. At first the desire to help the rebound from 2020 dominated policy, but soon enough inflation was spiking at a rate that could not be ignored.

All this leaves the Fed with its current dilemma. Inflation is still nearly double the rate preferred. The preferred measure of inflation is the TMPCE (Trimmed Mean Personal Consumption Expenditure). It is generally more accurate than the more commonly cited Consumer Price Index but the data lags by almost two months. We are just now getting a sense of the February rate of inflation. It seems that inflation has peaked as many predicted at the end of last year. The last reading had PCE at an annual rate of 5.0% and that is the lowest since September of 2021 and lower than had been forecast (5.3%). As recently as June of last year it stood at nearly 7.0%. This is obviously an improvement but still far from the range between 2.0% and 2.5% the Fed would prefer. If one looks at this data alone it would be simple to assert that rates would continue to rise. The mantra of the central bank is that rates are hiked until something breaks and then rates are subsequently lowered to fix what was broken. In most years the measure of whether there has been enough breakage has been the rate of unemployment. Once there has been an impact on the job market with extensive layoffs, the sense is that the economy has slowed enough.

In the last few weeks there has been yet another consideration for the central banks and for the entire bank regulatory system. The shift is described as duration risk. It is a measure of a bond's interest rate that considers a bond's maturity, coupon, yield and call features. It measures the impact on bonds when interest rates rise and apparently some investors and some banks failed to take this risk into consideration. As the dust has settled, it has become clear that Silicon Valley Bank has been troubled for some time and there were endemic weaknesses in others such as Republic and Signature. These issues were not widespread and the banking system was solid. The problem is that investors and depositors reacted immediately - and in a panic. Now that most of the drama has passed, there is the ongoing issue of what this means to the Fed's interest rate plans.The investment community is now convinced that the Fed will stop hiking rates and even start lowering them by the end of summer. There is some precedence to consider with this projection. Over the last forty to fifty years the central banks have generally started to lower rates eight to nine months after there has been a peak in inflation. If there was indeed a peak in global inflation in December of 2022 that eight month mark would be in July or August. Thus far the Fed has not indicated a desire to reduce rates and the inflation numbers are still far higher than they want. On the other hand, there is obvious impact from the higher rates – slower pace of new home construction, slower retail, consumers accessing credit for necessities and so on. The assertion at the moment is that there is a 50-50 chance for reduced rates by mid-summer.

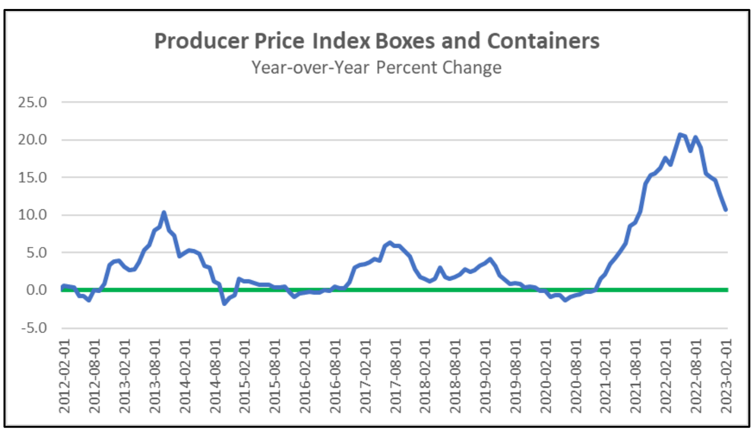
Upstream Conditions

The following section includes viewpoints on key commodities. Wherever possible, the Producer Price Index (PPI) is used as a gauge of prices for specific commodities. The PPI is derived from monthly Government surveys of those that purchase specific products and services. The PPI includes views on both spot and contract pricing for a given product or service and is more representative of general changes in street-level pricing trends. The most recent months of activity are used to provide the most accurate viewpoints.



Pulp and Paper Prices (WPU0913)

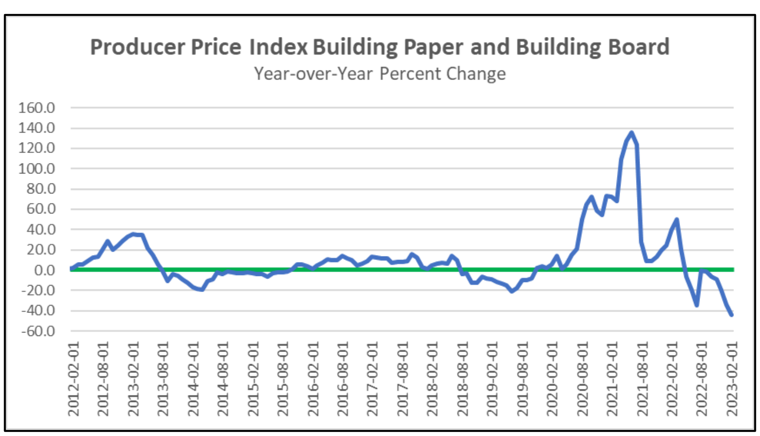
- The Producer Price Index (PPI) for paper and pulp in February (latest PPI available) was up month-over-month by 0.7% (down 0.2% last month). It was higher year-over-year, rising by 8.0% Y/Y (up 7.7% last month) against more difficult comparisons.
- **Looking Ahead**: Despite some softening of transportation cost trends, prices generally are still high from a historical perspective. Lower energy prices should begin to ease the pressure on operating costs. Labor continues to be an issue for now, job openings are still nearly twice as high as normal, which continues to create higher wage pressure. Easing demand should eventually pull prices lower, but we don't see evidence of that yet in the data.



Paper Boxes and Container Prices

(WPU091503)

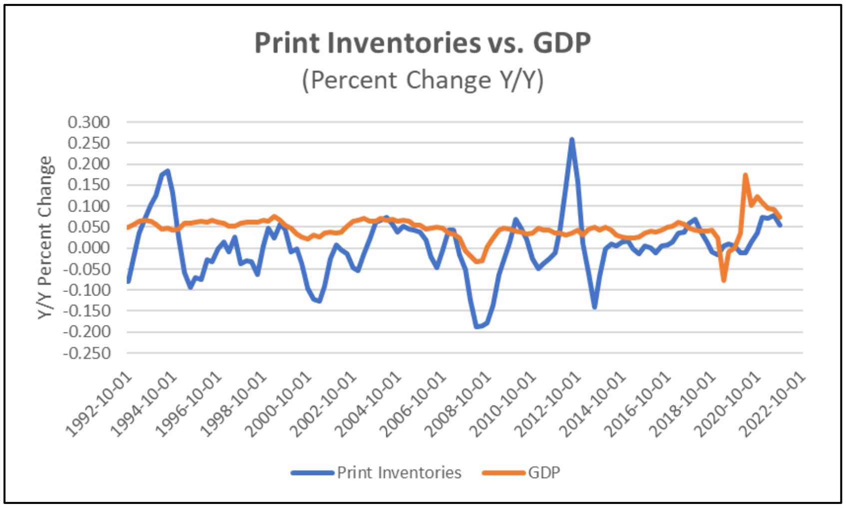
- The Producer Price Index (PPI) for boxes and containers in February (latest PPI available) was up month-over-month by 0.3% (flat last month). It was higher year-over-year, rising by 10.7% Y/Y (up 12.6% last month). This marked another all-time high for the index at 357 points.
- **Looking Ahead**: Spending in total dollars continues to set all-time highs. E-commerce sales continue to grow at an 8.5% annualized rate. Inflation adjusted spending continues to be high on a historical basis, despite some near-term deceleration. Concerns will build however, as consumer credit costs increase and credit card balances continue to bump up against credit limits, currently the situation for 65% of households living check-to-check.



Building Paper / Building Board Prices

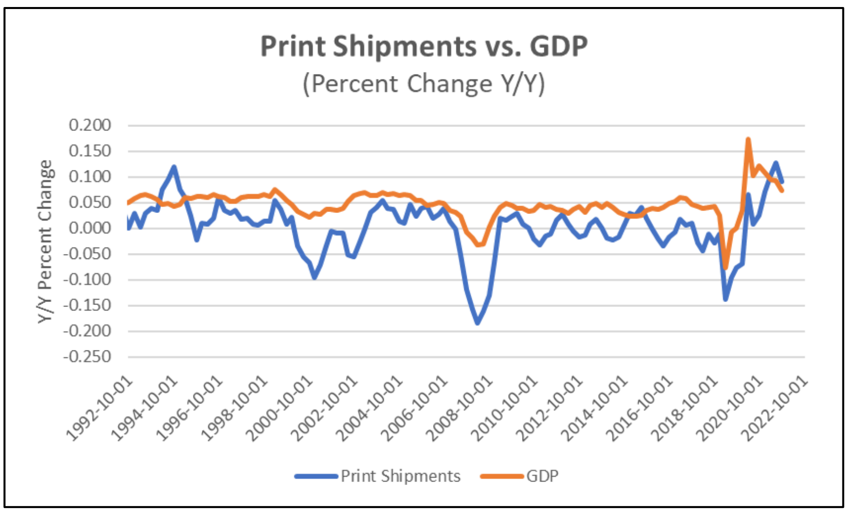
(WPU092)

- The Producer Price Index (PPI) for building paper and building board in February (latest PPI available) was flat month-over-month (down 6.6% last month). It was down sharply year-over-year, falling by 44.2% Y/Y (down 34.1% last month).
- **Looking Ahead**: Single family construction spending was down 21.4% Y/Y in February. However, strong growth was being seen in multi-family spending (up 22.2% Y/Y), and nonresidential spending which was up 16.8% Y/Y. Manufacturing, lodging, commercial, office, transportation, public safety, health care, and amusement construction spending were all also up double-digits.



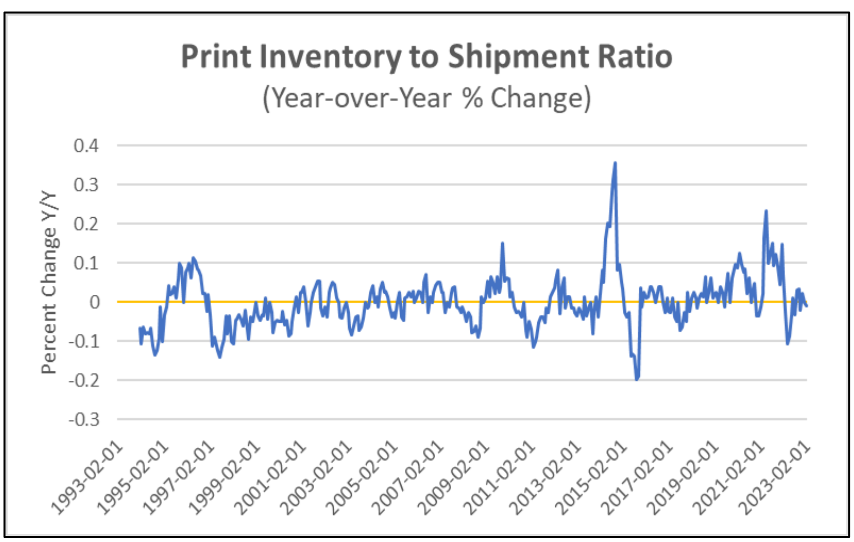
Print Inventories vs. GDP (U23STI)

- Print inventories were sitting 5.5% higher year-over-year in Q4 (latest available) and were slightly weaker than the 7.8% posted in Q3. These inventory figures cover the broadest spectrum of print material, some sub-sectors could be experiencing tighter conditions.
- **Looking Ahead**: Print inventories generally follow GDP trends, of course the year-over-year percent changes in inventory levels are more dramatic than the changes in GDP. Going into a possible recession in 2023, print firms may start to trim inventories as we have seen in prior downturns. Banks tightening credit standards and increasing borrowing costs could also add to liquidity pressure, which would also push producers to trim inventories.



Print Shipments vs. GDP (U23SVS)

- Shipments of print material were up 9% year-over-year through the end of the last quarter (down slightly from the 12.7% rate hit in the prior quarter). Shipment activity was higher in the last quarter by 2% over the prior quarter. Activity was stable.
- **Looking Ahead**: Like inventories, print shipment activity has more volatility than is seen in GDP. On a year-over-year percent change basis, shipments continued to see strength. Much of this was due to companies having a greater ability to clear backlogs and make broad improvements in overall supply chain continuity.



Inventory to Shipments Ratio (U23SIS)

- The inventory to shipment ratio (ISR) for the print industry declined by 2.9% year-over-year after dropping 5.0% in the prior quarter.
- **Looking Ahead**: The importance of the inventory to shipment ratio is that it shows how quickly inventories are building relative to outgoing shipment volumes. An ISR that is falling (like the current condition) shows that outbound shipment activity is outpacing inventory building activity. The shipment ratio is also a gauge of how backlogged the manufacturing process is. Looking at the inventory-to-sales ratio for the industry, it is now showing the ratio slightly elevated relative to where it was prior to the pandemic, and it is higher than it has been for some time. This could slow future orders.

Manufacturing Producer Prices

The Producer Price Index (PPI) for key paper industry metrics is listed in the chart below including month-over-month and year-over-year comparisons. To the degree that the PPI is derived from monthly Government Surveys of actual purchasers and users of the following products, it provides a more accurate street-level pricing viewpoint. Some data is delayed and may not have been updated by the time of publication.

Producer Price Index - Key Manufacturing Sectors						
Category	**PPI Code**	**Feb-23**	**Jan-23**	**M/M% Chg**	**Feb-22**	**Y/Y % Chg**
Paper Manufacturing	PCU322322	188.7	188.7	0.0%	170.04	11.0%
Pulp, Paper and Paperboard Mills	PCU32213221	184.9	185.8	-0.5%	165.5	11.7%
Pulp Mills	PCU3221132211	283.0	291.7	-3.0%	227.1	24.6%
Paper Mills	PCU3221232212	247.0	246.2	0.3%	216.0	14.4%
Paper Mills (Except Newsprint)	PCU322121322121	168.8	168.4	0.3%	148.2	13.9%
Newsprint	WPU091302	176.5	174.2	1.3%	147.5	19.7%
Paperboard (Primary Products)	PCU322130322130P	371.2	375.0	-1.0%	348.0	6.7%
Recycled Paperboard	PCU3221303221307	423.4	430.7	-1.7%	403.6	4.9%
Paper Container Manufacturing	PCU3222132221	333.9	333.4	0.2%	305.6	9.2%
Converted Paper Product Manufacturing	PCU32223222	193.1	192.7	0.2%	175.3	10.1%
Corrugated and Solid Fiber Box Manufacturing	PCU322211322211	448.7	448.4	0.1%	422.1	6.3%
Shipping Containers for food, beverages, carryout	PCU32221132221101	375.3	376.1	-0.2%	355.2	5.6%
Shipping Containers for paper products	PCU32221132221102	477.7	462.1	3.4%	446.9	6.9%
Shipping Containers for Metal Machinery	PCU32221132221103	264.6	266.0	-0.5%	245.5	7.8%
Corrugated Paperboard in Sheets and Rolls	WPU091405	357.6	357.9	-0.1%	333.3	7.3%
Folding Paperboard Box Manufacturing	PCU322212322212P	231.2	230.4	0.3%	196.7	17.5%
Paper Bag and Coated and Treated Paper Manuf.	PCU322220322220	134.2	134.0	0.1%	124.0	8.3%
Stationery Product Manufacturing	PCU322230322230	166.5	163.9	1.5%	134.3	23.9%
Sanitary Paper Product Manufacturing	PCU322291322291	134.2	133.4	0.6%	121.3	10.6%
Disposable Sanitary Product Manufacturing	PCU3222913222912	103.7	103.7	0.0%	99.4	4.2%
Sanitary Tissue Product Manufacturing	PCU3222913222915	170.5	168.6	1.1%	144.5	18.0%

Q1 2023 Comments: Unlike some inflation measures that are showing deceleration, paper prices across the board continue to remain stronger year-over-year, despite some slight sequential softening month-over-month in a few categories. Higher input costs are driving most categories higher, but the rate of price escalation has slowed in many categories. Shipping materials are stable, but the overall rate of growth is slowing. A slowdown in manufacturing activity is having an impact on demand for certain types of packaging and shipping materials. As mentioned last quarter, spending on consumer staples remains strong and e-commerce spending is obviously continuing to do well and historically is still dramatically stronger than it was prior to the pandemic. Pulp input prices are still elevated, and overall paper manufacturing came in 11.0% higher year-over-year despite being flat on a month-over-month basis through February.

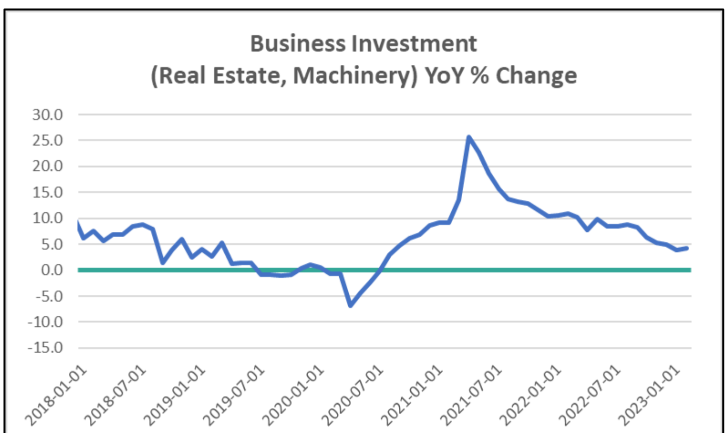
Downstream Market Demand

Kind of Business	Percent Change Feb. 2023 Advance from -- Jan. 2023	Feb. 2022
Retail & food services, total	-0.4	5.4
Retail	-0.1	4.0
Motor vehicle & parts dealers	-1.8	-0.2
Furniture & home furn. stores	-2.5	0.1
Electronics & appliance stores	0.3	-2.8
Building material & garden eq. & supplies dealers	-0.1	0.6
Food & beverage stores	0.5	5.5
Grocery stores	0.6	5.8
Health & personal care stores	0.9	8.0
Gasoline stations	-0.6	-1.9
Clothing & clothing accessories stores	-0.8	4.3
Sporting goods, hobby, musical instrument, & book stores	-0.5	3.9
General merchandise stores	0.5	10.5
Department stores	-4.0	2.5
Nonstore retailers	1.6	8.5
Food services & drinking places	-2.2	15.3

Retail Sales (RRSFS)

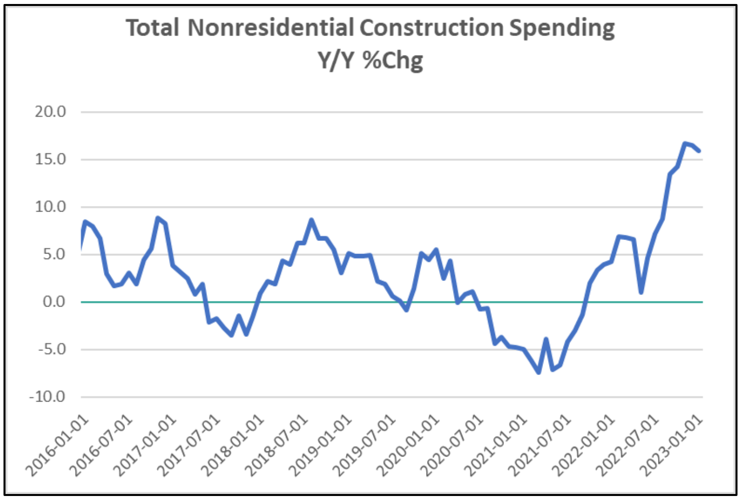
- Total retail sales were 5.4% higher year-over-year in February (the latest available). When stripping out fuel and autos, sales were still up 4.0%. However, when adjusting for inflation, total retail sales were down 0.6% Y/Y and were 0.8% lower sequentially M/M in February.
- General merchandise retailers saw sales 10.5% higher year-over-year and the critical e-commerce sector experienced an increase of 8.5%. As mentioned last quarter, inflation is pressuring households (62% of US households are now living check-to-check) and the savings rate has just hit its second-lowest level in history. That is slowing the volume of products leaving stores and increasing the demand for extra trailer storage.
- **Outlook**: The labor market has started to show a bit of strain, but unemployment remains very low. There are slightly fewer jobs on offer and much of that reduction has been seen in the service sector. Inflation is pressuring the lower 35% to 40% of income earners and that has affected the operations geared to that cohort. Credit card balances among that segment are reported to be near 97% and payments are becoming overdue, and that has triggered collection activity. As liquidity dries up and spending slows, retailers could be forced to hold more inventory and they might be buying less than anticipated going into the peak.

When adjusting this for inflation, sales were down, but at a high historic volume rate of products moving through supply chains. If this is enough to pull excess inventories down, the reorder process will start and that will help prop up broader economic (and especially retail) activity.



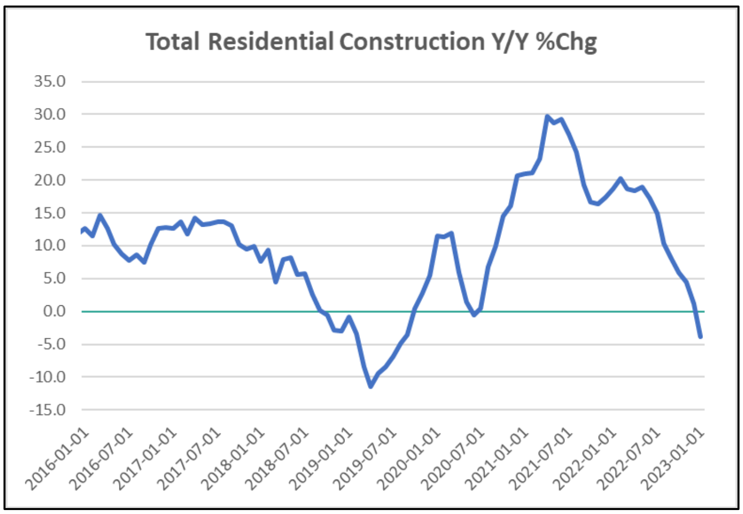
Capital Spending (NEWORDER)

- Spending on capital goods continued to be 'stable' through February (latest available); they were down slightly sequentially -0.1% M/M (0.5% higher last month). They were up by 4.2% Y/Y (up 4.0% last month) and continued to be strong historically.
- **Outlook**: Although the percent change seems to be slowing, it is primarily due to comparisons to last year. Three drivers for capital spending are still intact – expanding the use of robotics and machinery to cope with the worker shortage, expansion to accommodate the pace of reshoring activity and the fact that demand for many capital goods has remained steady. Consumers anticipating inflation are buying now in hopes of beating future price hikes.



Total Non-Residential Constr. (TLNRESCONS)

- Total Non-Residential Construction was 16.8% higher than it was a year ago (17.1% higher last month) and was up 0.4% M/M (+0.9% last month). Overall spending was at an annual rate of $982B (a new annualized run rate peak).
- **Outlook**: Nonresidential construction activity is booming across many sectors. Primary sectors spanning manufacturing, commercial, lodging, health care, and other non-infrastructure based nonresidential sectors (which are more apt to order building paper and materials). Reshoring activity in the manufacturing sector is accelerating, spending in the sector is approaching $140 billion in annualized spending and some estimates suggest that a trillion or more could be spent over the next 6 years for reshoring activity.



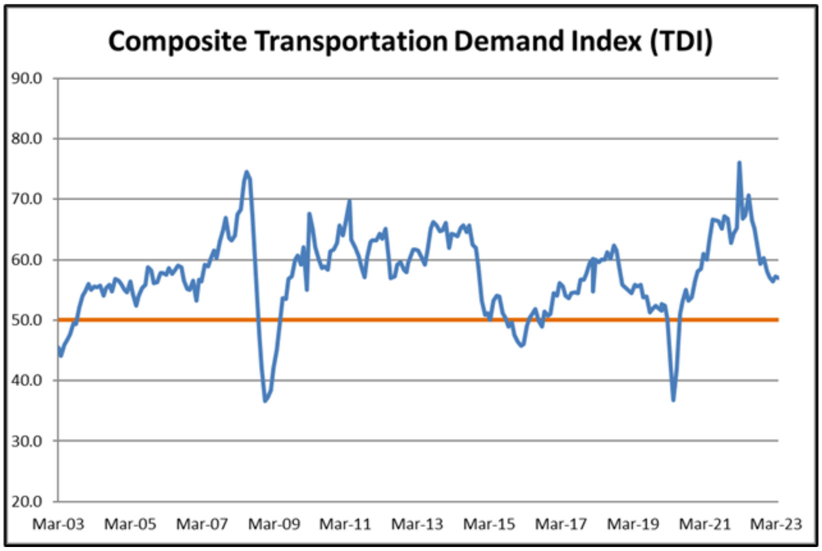
Total Residential Construction (PRRESCONS)

- Total residential construction in February (latest available), was down by 5.7% Y/Y (down 2.8% last month). It was down 0.6% M/M (-0.2% last month).
- **Outlook**: Other housing data shows a mix of events in January and into February. Single family housing saw buyers jump back into the market temporarily as interest rates softened. But that was temporary. New starts on multi-family construction continue to be sporadic, but they are still in a range that is the strongest since the early 1980's. Looking forward, there is still some pressure on the financial side of course that the industry is going to be dealing with, but the hike in interest rates may be approaching a peak. Sub-prime loans will be under more intense pressure, but other types of lending (jumbos, Government-backed) may continue to be fluid.

Wholesale Paper ISR (R4241IM163SCEN)

- Merchant wholesalers' inventory to sales ratios of paper supplies were at 1.12 months of inventory-on-hand. This is still lower than the decade average, but inventories have recovered. The ratio was higher by 3.7% Y/Y through February (latest available; up 5.6% Y/Y last month).
- **Outlook**: Wholesale inventory to sales ratios for paper products are now back in a range comparable to those between 2014 and 2019. At these balanced levels, the ability for wholesalers to fulfill orders quickly is back in a cycle that we haven't seen in more than two years. Supply chain disruptions have been mostly eliminated and transportation costs have eased in the process as well.

Supply Chain and Transportation Situation



Transportation Demand Still High

- The Transportation Demand Index shows the current demand environment for freight services (which dictates price). The current demand index at a broad level (across all modes of transportation) was 0.3% **lower** month-over-month in March (latest available) and was 15.5% lower year-over-year.
- **Outlook:** This month's TDI came in again closer to "normal" and was performing slightly below some historic ranges from the 2010-2014 period (and certainly down from levels over the past two years). Prices are mixed year-over-year (truckload prices are 10.5% lower Y/Y; Less-then-Truckload is up 8.3%, and Rail is up 6.6%). Those prices are for both contract and spot and include fuel surcharges. Capacity on the spot trucking market is available, and that should continue to give shippers negotiating power.

	23-Mar	23-Feb	22-Mar	Y/Y Change %	M/M Change %
Composite	57.0	57.2	66.7	-14.5%	-0.3%
Rail	55.0	55.2	62.5	-12.0%	-0.4%
Trucking	57.2	57.5	67.3	-15.0%	-0.5%
Air	61.2	60.8	71.3	-14.2%	0.7%
Maritime	59.1	58.7	68.8	-14.1%	0.7%

Mode Demand Slowing

- Each mode of transportation continued showing signs of decelerating demand, which was also pulling pricing lower. A reading over 50 here shows an expanding market, a reading under 50 is contracting. Every mode still had indexes above normal; demand is stable. But all modes were down Y/Y and the broad-based drop in demand was largely due to inventory overstocks and companies beginning to prepare for recession risk.

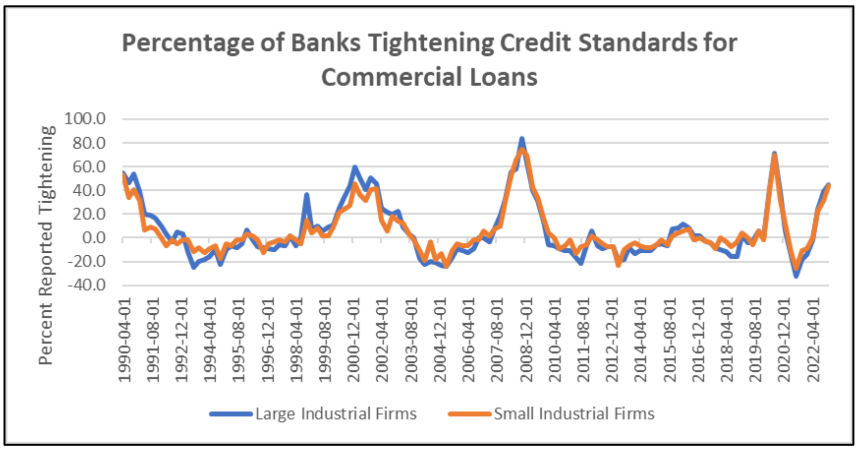
Additional Items We are Watching in Transportation

- **Shippers Gaining Negotiating Power.** Data suggests that capacity in the trucking sector is among some of the most sluggish in the past 5 to 10 years. This is mostly true in the truckload sector where prices continue to drop quickly, and the spot market is yielding drivers willing to accept very low rates to pick up loads. Less-than-truckload volumes are tighter since many companies are using smaller-sized shipments to backfill mild stockouts of merchandise and e-commerce is still robust. LTL costs are still high, and that has kept rates still nearly 8.5% higher year-over-year through March. With the economy remaining sluggish, the outlook is stable and capacity should remain available.

- **West Coast Contract Negotiations Continue**. Once again this quarter, port authorities and labor unions on the West Coast are still negotiating an overdue labor contract. This uncertainty still has many supply chain managers suggesting that they will continue to keep some of their volumes diverted from the West Coast until a labor contract is in place. This will likely continue to put unusual demand on east coast and Gulf ports in 2023 and keep trailer rental demand in those areas higher. Likewise, if an agreement is announced in Q2, watch for some market share to potentially shift back, which is the pattern that was experienced in previous labor contract periods. But time is running out for inbound shipments that would need to be diverted before they leave Asian ports.

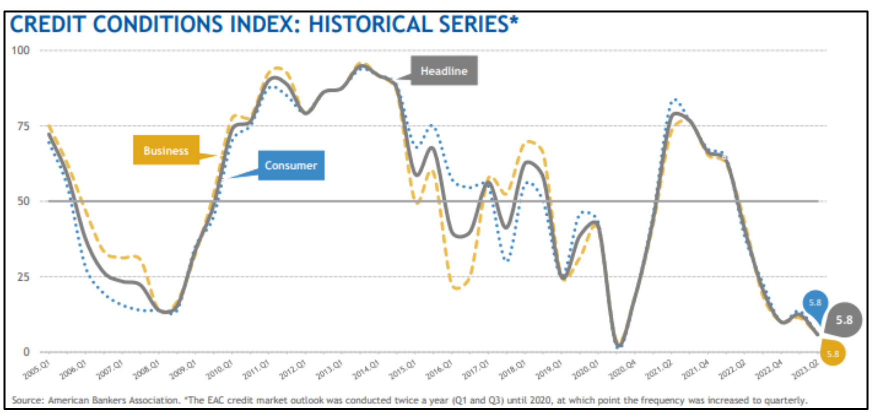
Banking Credit and Finance

Overall Observations: The expectation had been that credit would continue to tighten in step with the interest rate hikes planned by the Fed. Then the “bank crisis” hit in March. As the dust settled it became apparent that much of the initial angst was unwarranted (that these challenges are likely confined to a handful of individual institutions for now) but there are some lasting warning signs. The banks that got in trouble were those that had ignored “duration risk” and were unprepared for the impact of higher rates on the bond market. The initial moves by the FDIC, Fed and large banks calmed the panic set off by the collapse of SVB, Republic and Signature but there are other banks that are not in great shape. The assertion was that the Fed might start lowering rates, but they remain committed to inflation fighting and that makes Fed interest rates above 5.0% possible and even likely if inflation doesn’t subside.



Banks Tightening Conditions (DRTSCILM; DRTSCIS)

- Looking back to Q4 of last year, now more than 44.8% of banks are tightening loans for large and medium sized industrial loans. More than 43.8% of those lending to small firms are also tightening standards. This is the fastest tightening period since the middle of the pandemic and one of the tightest since the Great Recession.
- **Outlook**: There is a bit of a silver lining as banks contend with the higher rates. They still need to loan and are taking risks as that is the only way they make money. They now have a bit more margin to work with and they are more interested in loans to entities that have collateral.



Credit Conditions (ABA)

- The American Banking Associations Credit Conditions Index for business credit fell 5.6 points to 5.8 in Q2 2023 (the latest report). This was a new low point since the beginning of the pandemic lockdown period. All of the members of the ABA felt that business credit availability and business credit quality will worsen further over the next two quarters.
- **Outlook**: With a reading well below 50, the ABA Credit Conditions index has rarely been weaker. The current downtrend has been blamed to a degree on the decade long period of “easy money”. The credit conditions were skewed artificially high and “normal” has been a painful adjustment.

Industry Outlook

	2023				2024				2019	2020	2021	2022	2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4							
Real GDP	1.0	-0.9	-1.8	-0.6	1.4	2.7	2.2	2.3	2.3	-2.8	5.9	2.1	0.7	1.6	1.8
Unemployment rate (%)	3.4	3.5	4.0	4.4	4.4	4.3	4.2	4.1	3.7	8.1	5.4	3.6	3.8	4.3	4.5
PCE Inflation (%Y/Y)	4.6	3.6	3.1	3.1	2.5	2.3	2.1	2.0	1.5	1.1	4.0	5.6	3.1	2.2	2.0
Core PCE Inflation (%Y/Y)	4.0	3.6	3.5	3.5	2.5	2.3	2.1	2.0	1.7	1.3	3.5	4.8	3.5	2.2	2.0
Fed Funds Rate	4.9	5.1	5.1	5.1	4.9	4.4	3.9	3.8	1.6	0.1	0.1	4.4	5.1	3.4	3.1

Economic growth estimates have been all over the place for the coming year. The most recent assessment from the Brookings/Financial Times tracker has 2023 experiencing no more than a short-lived downturn with growth in all the key markets. The US is expected to grow at around 2.0% in Q1 and Q2, Eurozone at between 1.0% and 1.5% and China hitting its target of 5.0%. The critical question is as it has been for several months – what happens with interest rates? The Fed is now noting that there has been a slowdown in the labor market and that could be the trigger needed to halt rate increases and perhaps start to lower them by the end of the summer. There are still many economic assessments that are far more pessimistic however.

Paper production costs have started to vary more than was expected. The spot price for natural gas has been hovering around $2.00 per one million btu and that is up slightly from the numbers in January and February. But this is still substantially lower than the $5.67 a year ago. Lumber prices have been declining slightly and that has affected pulp prices to some extent. Energy costs are starting to rise as the price per barrel of oil has been affected by a variety of geopolitical moves.

Construction activity will continue to show a lot of variability. The manufacturing sector has overtaken the logistics sector as the prime driver for commercial construction. This has been propelled by all the reshoring activity combined with the aggressive expansion of technology and robotics as these innovations are demanding more space and differing facilities. Warehousing and logistics are still big drivers of construction activity, but the pace of growth has slowed. The next big push will come from the expansion of infrastructure spending that will start accelerating this summer and into the 3rd and 4th quarter.

Consumer spending in retail and e-commerce sales have been holding steadier than anticipated. The growth in revenue has not been matched by profits however. The big driver for expanded consumer spending has been inflation. The expected move to on-line shopping has not ended but the demise of the “brick and mortar’ store has been overplayed to some degree. There is still a major shift towards on-line but the traditional retail brick-and-mortar outlet is still expanding as well.